

The Role of Law Corruption and Culture in Investment Fund Manager Fees

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Abstract : This paper considers an international sample of venture capital and private equity funds to assess the role of law, corruption and culture in setting fund manager fees in terms of their fixed management fees, carried interest performance fees, clawbacks of fees and cash versus share distributions of fees. The data highlight a role of legal conditions in shaping fees paid to fund managers. In countries with better legal conditions, fixed fees are lower, carried interest fees are higher, clawbacks are less likely, and share distributions are more likely. These findings suggest legal conditions help to align the interests of managers and shareholders. More specifically, we examine which element of legal conditions matter most, and discover that corruption levels play a pronounced role in shaping fund manager fee contracts. We also show that cultural forces such as Hofstede's measures of power distance and uncertainty avoidance likewise play a role in influencing fees.

Keywords : managerial compensation, incentive contracts, private equity, law and finance

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